



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at The Templin's Red Lion Hotel in Post Falls, Idaho at 8:30 a.m. May 23, 2006. The following members were present:

Jody B. Olson
J. Kirk Sullivan
Clifford T. Hayes
Jeff Cilek
Pamela I. Ahrens

Executive Director Alan H. Winkle, Deputy Director Don Drum, Chief Investment Officer Robert Maynard, Investment Officer Richelle Sugiyama, Deputy Attorney General Brad Goodsell, and Financial Officer James Monroe were also in attendance. Other persons attending portions of the meeting were:

| | |
|--------------------|-------------------|
| Karen Steffen | Milliman |
| Cody Barney | DBF |
| Brian McGrath | DBF |
| Dennis Fitzpatrick | DBF |
| Drew Black | DBF |
| Jim Shakelford | IEA |
| David McManaman | GMAC/CapMark |
| Judy Colbeck | U of I |
| Kirk Appleby | ITD |
| Paul Baker | East Greenacres |
| Fred Mitchell | Retired Educators |
| Carol E. Wilson | |

Kari Caven
Kathi Kaufman

PERSI
PERSI

Chairman Olson began with introductions of Board Members and then all others present.

MINUTES

Approval of the Minutes: By motion duly made by Trustee Ahrens and seconded by Trustee Cilek, the Board unanimously approved the minutes of the April 25, 2006 meeting. In the same motion, the minutes of the April 26, 2006 Private Equity Sub-Committee were also approved.

PORTFOLIO

Callan Quarterly Report: Consultant Michael O'Leary had previously provided copies of their performance report for periods ending March 31, 2006. The total Base Plan investment program achieved an exceptionally strong 13.49% return for the fiscal year-to-date. The Board's important strategic decisions had positive impacts during the quarter and significantly positive effects on the full year returns. The emerging markets emphasis within the international component of the portfolio was also a major contributor. Mr. O'Leary said real estate, particularly the REIT exposure, was another major contributor to the positive returns.

Monthly Portfolio Update: In his report and presentation, Mr. Maynard said markets have gone down this month due to uncertainty over inflation and interest rates. Trustee Hayes asked whether changes were planned in response to market conditions; Mr. Maynard indicated that no significant changes are anticipated. The fund is down 2.5% this month and is up 12.4% for the fiscal year-to-date, continuing above the \$9.5 billion level. Emerging markets and the Pacific equity markets are the best performing capital markets for the fiscal year-to-date, although both have shown a major retreat in the past few weeks.

Bernstein Emerging, Zesiger, and Genesis are the leading performers in absolute returns, although Genesis is behind its benchmark. Zesiger, Bernstein Global and Donald Smith are the best performers against benchmark. The bond accounts provide little to cheer about either absolutely or relatively. Mondrian, Genesis and Tukman are the largest underperformers against benchmark. Private equity continues to have good absolute and relative performance.

Of PERSI's major strategic leanings, global equity managers and emerging markets are helping the most relative to the fund's strategic benchmark and with TIPS detracting. Overall, the fund is ahead of the strategic benchmark for the fiscal year by an exceptional 3.7%. All managers are either within their expected characteristics or have reasonable explanations for slight deviations.

Idaho Commercial Mortgage Report: David McManaman told the Trustees that GMAC has recently been acquired and now operates under the name CapMark Financial. The formal report had previously been provided to the Trustees. The annual review included file reviews and interviews of loan recipients. Borrowers continue to complain about recourse requirements, but such requirements mitigate our risk and enhance the program. The program equals or exceeds industry standards. There are currently no REO's or defaults in the program. Trustee Sullivan asked about the use of the term "long-term relationship with the board" as used in a description of a borrower interviewed in the report. That term was used to indicate only that the borrower had multiple loans in the program over time. Chairman Olson and CIO Maynard commented on the value of the program to the State of Idaho and how well DB Fitzpatrick has managed the program.

Comments by DB Fitzpatrick Co.: Drew Black then provided summary details on the Commercial Mortgage Portfolio. Cody Barney reviewed the annual performance of the Mortgage-Backed Securities Portfolio. Directing a question to Consultant Michael O'Leary, Chairman Olson asked about the MBS performance. A discussion ensued about the attributes of the portfolio in the past and going forward.

Investment Manager Comments: Chairman Olson invited managers who were present to comment on the markets and the economy. Brian McGrath commented on interest rates and inflation. Dennis Fitzpatrick shared observations on the economy in Northern Idaho.

EXECUTIVE DIRECTOR

Experience Study Results – Milliman: Actuary Karen Steffen reviewed actuarial principals. Questions were posed and comments made by members of the audience and others. Assumptions were discussed, including new generational mortality assumptions. New assumptions were recommended for adoption. Chairman Olson asked if the recommended assumptions would make PERSI too conservative. Ms. Steffen said they would not, that these assumptions are intended only to more closely predict actual mortality rates. Trustee Hayes asked why contribution rates shouldn't increase to pay for higher normal costs. Mr. Winkle explained that current rates include a component that pays for the unfunded liability and that a portion of that component can be used to pay additional normal costs in light of current funded status. Trustee Hayes moved to adopt the recommended "generational" mortality assumptions recommended by the actuary on page three of the 2006 Investigation of Experience report. Trustee Cilek seconded and the motion was unanimously approved.

Status Update: Mr. Winkle reviewed his status report memorandum dated May 16, 2006. A detailed report on the Business Process Re-Engineering Project had been provided by Stacy Jones. Imaging of the

backfile microfiche is complete and the PERSI QA review is nearly final. Development of the process and training modules is proceeding as scheduled. The workflow maps of internal processes are completed and ready to be programmed into the automated system. Testing of the new image software is on schedule.

Reference checks are in progress for the Choice Plan Recordkeeper. We expect to have a recommendation to the Board after the first of the fiscal year.

We continue to anticipate the final memorandum from the Attorney General's office regarding indemnification. We are still exploring the types of insurance products that might be available to the Board to insure against risks not covered by the Tort claims Act, together with the possibility of self-insuring.

We have filled three of our four vacant positions, the IT Help Desk, PAC Supervisor and a Retirement Specialist for data research and record audits. Final interviews are scheduled for our Training Specialist position. We are currently scheduling interviews for our Online Guideline Technical Writer. We are planning to have these positions filled by the end of the fiscal year.

Deputy Director Drum is conducting a comprehensive review of the PERSI education program both from a member education perspective and from the internal staff training perspective. He has completed some initial assessments of both areas and is drafting a summary of the needs. The end result will be a PERSI-wide education plan which should be ready shortly after the new fiscal year begins.

FISCAL

Fiscal Update/ Administrative and Portfolio Reports: Financial Officer James Monroe reported that preparation for the annual audit is underway. Preliminary work should begin in June and field work is scheduled for late August.

PERSI management will award merit bonuses during the current fiscal year. These will be funded by current year salary savings generated from the vacant positions. Based on preliminary plans, the average bonus is expected to be about \$800.

The Industrial Commission continues to review and evaluate their office space needs. If they make a decision to release a new RFP, PERSI will consider submitting a proposal. Before beginning construction, we are looking for a tenant who would occupy a sizeable portion of the new building. Chairman Olson asked Trustee Ahrens about the Industrial Commission's interest and the process. Some discussion ensued.

Mr. Monroe then reviewed the Administrative and Portfolio budget reports and answered questions from the Trustees. He also reviewed the Quarterly Financial Statements which had previously been provided to the Board.

Executive Session: Idaho Code §67-2345(b) allows an executive session to consider the evaluation of an employee's performance. By motion duly made by Trustee Hayes, seconded by Trustee Cilek and unanimously approved, the meeting resolved into an executive session at 11:20 a.m. The regular meeting resumed at 11:33 a.m. Chairman Olson said that during the closed session the Trustees had conducted the annual performance review for Executive Director Winkle. By motion duly made by Trustee Hayes and seconded by Trustee Cilek, the Board unanimously approved a salary increase of 6% for Mr. Winkle effective July 1, 2006.

FUTURE MEETINGS:

No June Meeting

July 25, 2006, 8:30 a.m., Boise – PERSI office

Adjournment: At 12:20 p.m., there being no further business to come before the Board, the meeting was adjourned.

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director